

Mark Schemes for the Units

June 2008

1985/MS/R/08

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GCSE Economics (1985)

MARK SCHEME FOR THE UNITS

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1985/01 Paper 1 Foundation Tier

Fig.1 shows what happens to £1 paid by a UK motorist for a litre of petrol.

- 1 (a) Calculate the percentage of the price which is made up of excise duty. Show your working.

Target: To calculate excise duty as a percentage of the price

$52.3/100 \times 100 = 52.3\%$ (1 for method)
Accept 52% for 1 mark.

2

- (b) Petrol is made from oil. The diagram below shows the demand for and supply of petrol.

Target: To analyse the effect on price and sales of change in supply

- (i) On the diagram, show the effect on the price and sales of petrol of a rise in the price of oil.

1 mark for supply curve shift to the left
1 mark for new higher price
1 mark for new lower quantity.

3

- (ii) State what happens to:

The market price of petrol: Price rises

The quantity of petrol sold: Quantity falls.

2

- (c) With the help of a demand and supply diagram, explain what will happen to the market for cars if there is a large rise in the price of petrol.

Target: To analyse the effect on demand and sales of a change in price

1 mark for diagram with original equilibrium shown
1 mark for shift of demand to the left
1 mark for new equilibrium price and quantity

1 mark for explaining why demand falls
1 mark for stating price will fall
1 mark for stating quantity will fall.

6

- (d) Car manufacturers use the four factors of production to make cars. Name the four factors of production.

Target: To demonstrate knowledge of the four factors of production

1 mark for each of:
land, labour, capital, enterprise.

4

- (e) Car manufacturers have both fixed and variable costs of production. Explain the difference between a fixed cost and a variable cost.**

Target: To demonstrate knowledge of fixed and variable costs

1 mark for each explained e.g. fixed cost stays the same regardless of output, variable cost varies directly with output
Maximum of 1 mark with no reference to output.

2

- (f) Identify two costs paid by car users.**

Target: To show knowledge of private costs

1 mark for each e.g. petrol, road tax, insurance, MoT, etc.

2

- (g) Identify two external costs of car use.**

Target: To show knowledge of external costs

1 mark for each e.g. congestion, noise, air pollution, etc.

2

Total 23 marks

- 2 (a) **Target: To demonstrate understanding of opportunity cost, using an example**
- (i) **What is meant by the term opportunity cost.**
- 2 marks for clear explanation, e.g. the next best alternative given up.
1 mark if some understanding shown or example only is given. 2
- (ii) **What might be the opportunity cost to a 16-year old of leaving school to take up a job?**
- 1 mark for any reasonable example, e.g. staying at school to do A-levels. 1
- (b) **Fig. 2 shows the equilibrium wage for cleaners is £4.50 an hour. The cleaners are, however, paid a minimum wage of £5.50 an hour. Using Fig. 2, explain what happens in this market for cleaners now that a minimum wage is paid.**
- Target: To analyse the effect of a minimum wage**
- There are 3000 cleaners demanded (1) but 5500 cleaners supplied (1) (or there are more supplied but less demanded (1)) so there is an excess supply of cleaners (1) which is 2500 cleaners (1). Cleaners who want jobs will be unemployed (1). 4
- (c) **Should doctors be paid more than cleaners? Give reasons for your answer.**
- Target: To evaluate reasons for different rates of pay**
- Level 2 (3–4 marks)**
Justification why doctors should/should not receive higher pay, e.g. doctors should be paid more as they have many years of training and have given up the opportunity to earn during this time (an opportunity cost). The high wage is a reward for this long training.
- Level 1 (1–2 marks)**
1 or 2 reasons stated, e.g. doctors have to train for a long time, e.g. cleaners do not need qualifications, e.g. doctors save lives but anyone can clean.
(This if F tier only so demand and supply analysis is not expected here). 4

- (d) **A national minimum wage is good for the economy. Do you agree? Give reasons for your answer.**

Target: To evaluate the effects of a national minimum wage

Arguments for could include: Equity/fairness argument, helping the lower paid, reducing exploitation. Employers pay instead of the tax payer in top-up benefits. Incentives to work are increased. People less likely to want to rely on benefits instead of work. Increases demand in the economy, helps employment and growth.

Arguments against could include: It does not help the poorest who do not work at all (examples). It increases costs to employers, which could mean higher prices. It makes UK goods less competitive in international markets. It helps people not from poor households, e.g. working children of the well-off. It can cause unemployment in some industries, e.g. less labour is brought at the higher wage.

Level 3 (5–8 marks)

Candidate makes a judgement based on reasoned arguments for and against a NMW. Maximum of 6 marks for only one side well argued.

Level 2 (3–4 marks)

Basic analysis of arguments for or against a NMW.

Level 1 (1–2 marks)

Argument for and/or against a NMW stated. Also allow mark for definition. Maximum of 2 marks for presenting unemployment argument without going beyond part (b).

8

Total 19 marks

- 3 (a) **State one reason given by Peugeot for the closure of its Coventry factory.**

Target: To select data

'No longer competitive' or 'cheaper to produce in Eastern Europe'.

- (b) **Explain three possible reasons why Peugeot may prefer to locate car production in Slovakia rather than in the UK.**

Target: To understand factors affecting location of industry

2 marks for each reason (briefly) explained. Reasons could include lower labour costs (wages and other), availability of skilled labour, lower land costs (rent and rates), more aid from government or EU grants, less regulation (?), lower company taxes, lower transport costs to continental markets, larger markets at hand etc. Award 1 mark maximum only for answers which identify lower costs without specifying any / it is cheaper.

6

- (c) **The UK and Slovakia are both European Union (EU) countries. Name two other EU countries.**

Target: To demonstrate knowledge of EU member countries

Any 2 from the other 25.

2

- (d) **Explain two advantages which companies such as Peugeot can gain from locating production within the European Union.**

Target: To understand benefits to industry of location within the EU

Up to 2 marks for each advantage explained.

E.g. Access to a large single market of 444m consumers without any protection/import taxes.

Greater scope for economies of scale

Ability to move workers/managers/capital between countries.

4

- (e) **The descriptions in Fig. 4 below are of four types of unemployment. Using the words below, match each type of unemployment with its description. Write your answers in Fig. 4.**

Target: To understand the cause of types of unemployment

Structural

Technological

Cyclical

Voluntary

4

- (f) Over 60% of Peugeot's cars made in the UK were exported.

Target: To demonstrate knowledge of exports and imports

- (i) What is an export?

Simple definition e.g. a good sold abroad

1

- (ii) How would the closure of the Peugeot factory in Coventry affect UK exports and imports of cars?

Exports: fall (1), imports: rise (1)

2

- (g) Would the closure of the Peugeot factory in Coventry lead to problems for the local community? Give reasons for your answer.

Target: To evaluate economic effects on a local community of factory closure

Level 2 (4-6 marks)

Reasons why factory closure would lead to problems, which can include: High unemployment, knock-on (multiplier) effects of this on spending and therefore incomes of others, less sales for local businesses, some might close. Social effects, e.g. more crime.

References to suppliers (which could be local) should be rewarded.

House prices could fall, bad for current owners.

Award marks for any possible benefits e.g. fewer external costs.

Level 1 (1-3 marks)

Up to 3 problems (or benefits) identified or one or more problems (benefits) explained.

Note: Allow only 1 mark for effects on government revenue and spending unless local government is specified.

6

- (h) **Below are two economic measures that the government could use to improve the employment prospects of unemployed car factory workers. Explain each method and discuss how well it is likely to work.**

Target: To evaluate measures to reduce unemployment

For each measure:

Up to 2 marks for explaining and analysing how it works

Up to 3 marks for discussing how well it works

(e.g. allow up to 5 marks for each measure so candidate can be awarded 5 + 3 for 8 marks)

Providing training schemes

E.g. training schemes provide workers with new skills (1) so they can do other jobs (1)

This makes them more mobile (1) and able to move into newer industries (1) although there may still not be opportunities in their local area (1).

Reducing taxes (such as VAT) on new cars

E.g. VAT reduction makes the cars cheaper (1) so consumers will buy more cars (1).

This will increase employment of car workers (1), but maybe not those whose factory is now closed (1). Consumers may buy more imported cars (1).

The government will receive less revenue (1), which leads to (specified) problems (1).

8

QWC mark scheme

2

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

Total 36 marks

4 (a) From Fig. 5:

Target: To apply knowledge and understanding of taxes in the UK

(i) State two deductions from wages;

Income tax and national insurance. 2

(ii) State two taxes on spending;

VAT and excise duties. 2

(iii) State two taxes which provide income for local government;

Council tax and business rates. 2

(iv) Name the two taxes which collect the most revenue for the UK government.

Income tax and national insurance (or accept VAT). 2

(b) From Fig.6, name the two largest items of government spending.

Target: To select data

Social protection and health. 2

- (c) In recent years, the UK government has been spending more on health and education. Should the extra revenue for this come from direct taxes (such as income tax) or indirect taxes (such as VAT and excise duties)? Give reasons for your answer.

Target: To evaluate direct and indirect taxes as means of raising extra revenue

Level 3 (7-10 marks)

Candidate demonstrates a high level of evaluation by considering pros and cons of both direct taxes and indirect taxes, and makes an overall judgement.

Advantages of direct taxes include being based on the ability to pay, can make the distribution of income more equal.

Disadvantages include adverse effects on incentives - to work, to save, to invest, etc.

Advantages of indirect taxes include having choice of whether to buy and therefore pay, do not blunt incentives, reduce demand for demerit goods.

Disadvantages include regressive effects, which would be worse if the tax is extended e.g. to food.

Award marks for evaluation of effects of any specific taxes which candidate may identify, e.g. corporation tax, inheritance tax.

Level 2 (4-6 marks)

Candidate demonstrates analysis by considering both types of taxes, although may not analyse both advantages and disadvantages of each.

Level 1 (1-3 marks)

Candidate identifies consequences of increasing direct or indirect taxes.

10

QWC mark scheme

2

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

Total 22 marks

1985/02 Paper 2 (Case Study Paper) Foundation Tier

- 1 (a) What percentage of people take less than 40 minutes to travel to work on Merseyside? [1]

Target: To calculate the percentage of people who take less than 40 minutes to travel to work.

$$36\% + 46\% =$$

82% - 1 mark.

- (b) Compare the time taken to travel to work on Merseyside and in London. [2]

Target: To compare difference in time taken to travel to work.

A higher percentage of people take less than 20 minutes to travel to work on Merseyside compared to London (Merseyside – 46% compared to London – 20%).

State difference (1 mark)

Use of figures to back up (1 mark)

Candidates must compare and not simply state figures. 1 mark for simply stating figures.

- (c) Discuss the costs and benefits of charging motorists to drive in congested areas. [6]

Target: To discuss costs and benefits of a congestion charge.

Costs – Will increase costs to firms who must transport their goods in these areas, cost of enforcement.

Benefits – Reduces the amount of drivers on the road, therefore reducing congestion, pollution and accidents (external costs). Money collected can be used by the government to improve roads in the area or for other projects.

Level 2 (4-6 marks)

Candidate must discuss at least one cost and one benefit. At the top the candidate can suggest whether the costs outweigh the benefits or vice versa.

Level 1 (1-3 marks)

Candidate will only discuss costs or benefits, not both. Two costs or benefits must be explained to gain top end.

- 2 (a) Calculate the number of people employed in the public sector in the UK. Show your working. [2]

Target: To calculate number of people using percentages.

6.12 million people (2 marks)

Correct working shown but incorrect answer given (1 mark).

- (b) Other than the NHS give one example of a public sector organisation. [1]

Target: To state a public sector organisation.

Education (1 mark)

Any other reasonable response (1 mark)

- (c) Should health care in the UK be provided by the public or private sector? Give reasons for your answer. [6]

Target: To discuss whether health should be provided by the public or private sector.

Public sector – money provided by the government, free at the point of use, main aim is to provide a good service, all of society can access this facility (many benefits to society of this).

Money coming from taxation could be spent on other services

(opportunity cost), run very inefficiently at present – long waiting lists.

Private sector – run efficiently (no waste) due to profit being main objective. Not everyone will be able to afford health care.

Level 2 (4-6 marks)

Candidates discuss advantages and/or disadvantages of provision by both private and public sector. At the top of this level candidates are able to discuss two or more advantages and/or disadvantages of both.

Level 1 (1-3 marks)

Candidate only looks at public sector provision or private sector provision, not both.

- 3 (a) What is meant by total revenue? [1]

Target: To describe the term total revenue.

Price x Quantity (1 mark)

Total amount the firm receives from selling their product (1 mark).

- (b) Complete the table below: [2]

Number of customers	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
10	1000	50	1050	250
20	1000	100	1100	
30	1000	150	1150	750
40	1000	200	1200	1000
50	1000	250	1250	1250
60	1000	300	1300	1500

£500 (2 marks)

Correct working but incorrect answer (1 mark)

- (c) Draw and label the total revenue line on the break even chart below. [2]

Target: To be able to draw the total revenue line.

1 mark for correct line.

1 mark for labelling line.

- (d) Jane currently has 40 customers per week. Calculate the loss she makes each week. Show your working. [2]

Target: To calculate the loss made.

£200 (2 marks)

Working shown but answer incorrect (1 mark).

- (e) **Should Jane increase her prices or try to attract more customers in order to make a profit? Give reasons for your answer.** [6]

Target: To explain whether increasing prices or attracting additional customers will help to increase profit.

Increase prices:

Yes – profit increases without extra expense or work.

No – may cause customers to go elsewhere.

Attract additional customers:

Yes – increases customer base.

No – costs money to advertise to attract new customers, depends on competition in the area, she may not be able to do all the work herself with more customers so may need extra help which would increase costs, may not be enough room in the salon.

Other ways to increase profit – reduce costs.

Level 2 (4-6 marks)

Candidates discuss either/or both increasing prices and attracting new customers as ways of increasing profit or discuss one aspect in great detail. Candidate who suggests other ways of increasing profit instead will be at the top of the level.

Level 1 (1-3 marks)

Candidates only explain/advise how increasing prices and/or attracting new customers may increase profits. At the bottom of the level candidates simply state ideas.

- 4 (a) Using the graph in Fig 4, describe what has happened to house prices between August 2005 and August 2006. [4]

Target: To describe the changes in house prices.

House prices have risen (1 mark)
Use of figures to explain (1 mark)
Describe fluctuations (1 mark)
Use figures to back up fluctuations (1 mark)

- (b) Using a demand and supply diagram, explain how increased interest rates would affect the price and sales of houses. [5]

Target: To use supply and demand to explain the changes in the housing market.

Diagram - Axis labelled correctly (1 mark)
Original demand and supply curve labelled with original equilibrium shown (1 mark)
Shift of the demand curve to the left must be correctly labelled (1 mark).

Explanation - Higher interest rates will mean people have less money to spend (less disposable income) (1 mark)
Demand for houses will fall therefore the demand curve will shift to the left (1 mark)
Price and quantity will fall (1 mark).

- 5 (a) Describe what happened to the Bank of England interest rate between February 2000 and February 2003. [2]

Target: To describe data on a graph.

The interest rate fell (1 mark), from 6% to 3.75% (1 mark).

- (b) Would the Jackson family be pleased with the change in interest rates between February 2000 and February 2003? Give reasons for your answer. [4]

Target: To discuss how falling interest rates will affect a family with a mortgage and savings.

A fall in the interest rate will mean the family have more disposable income due to lower mortgage repayments. The return on their savings will decrease. The value of their mortgage is higher than the value of their savings therefore they will find a net benefit.

Level 2 (3-4 marks)

Candidates discuss the effects on **both** mortgage repayments and savings. Candidates may calculate interest differences.

Level 1 (1-2 marks)

Candidates explain how their mortgage will be affected or how their savings will be affected.

- 6 (a) Explain what happened to prices between 2004 and 2006. [2]

Target: To describe changes in the price level and inflation.

Risen (1 mark)

Use of figures to back this up (1 mark).

- (b) Explain one cause of inflation. [3]

Target: To explain a cause of inflation.

Cost push (1 mark), increased costs of production incurred by firms. Firms wish to maintain profit margins so therefore increase prices (up to 2 marks). Vague idea (1 mark). Candidate must state cost push in order to get first mark.

OR

Demand pull (1 mark), when customers spend more firms feel able to increase their prices, likely to occur when there is full employment (2 marks). Vague idea (1 mark). Candidate must state demand pull to get first mark.

Monetarist, imported inflation.

- (c) Discuss how increased inflation might affect the Jackson family. [6+2]

Target: To discuss how inflation affects the Jackson family.

Savings will lose their value; the Jackson family will see the value of their mortgage fall in real terms, spending / real income, standard of living falling. May affect Mrs Jackson's business with fewer customers.

Level 2 (3-6 marks)

Candidates discuss two costs and/or benefits to the family. At the top end the candidates can say it depends on Mike Jackson's wage increases.

Level 1 (1-2 marks)

Candidates will explain the effect on savings, the effect on the mortgage or the effect on spending / real income.

QWC mark scheme

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Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

- 7 (a) Other than France, name one other country which uses the euro. [1]

Target: To show knowledge of Eurozone countries.

Germany, Ireland, Spain, Greece etc (1 mark).

- (b) What is meant by an exchange rate? [2]

Target: To describe what is meant by an exchange rate.

The value of one currency in terms of another (1 mark)
Example £1 = €1.63 (1 mark).

- (c) Would it have been better for the Jackson family to have gone on holiday to France in May or September 2006? Give reasons for your answer. [4]

Target: To discuss which exchange rate would be better for the Jackson family when going on holiday.

In September the Jackson family would have been able to get more euros for their pounds compared with May. Candidates may calculate differences.

Level 2 (3-4 marks)

When making a judgment candidates explain why it would have been better to go in September. Use of figures from case study to support judgement.

Level 1 (1-2 marks)

Candidates explain differences in the exchange rate making a judgement as to which month is best.

- 8** Darren thinks that living standards in the North West are higher than those in the UK as a whole. Do you agree with Darren? Use Fig 8 and your knowledge of economics to give reasons for your answer. [12+2]

Target: To discuss if the data shows living standards are higher in the North West than the UK as a whole.

Lower standard of living – lower GDP per head, lower percentage of pupils achieving 5 or more A* to C GCSE's, higher recorded crime, lower gross weekly earnings, lower average house prices, higher infant mortality.
Higher standard of living – lower unemployment, lower road accidents, more households with mobile phones.

Level 4 (7-12 marks)

Candidates are able to discuss if Darren is right in believing that the information proved living standards in the North West were higher than the UK. Candidates must use the information. A two sided argument is required.

Level 3 (5-6 marks)

Candidates explain the information in the case study. To achieve the top of this level candidates must explain two or more points. Candidate will write a one sided argument.

Level 2 (3-4 marks)

Candidates use the figures from the case study.

Level 1 (1-2 marks)

Candidates describe the information showing knowledge of the economic concepts.

QWC mark scheme

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

1985/03 Paper 3 Higher Tier

1 Fig. 1 shows what happens to £1 paid by a UK motorist for a litre of petrol.

- (a) Calculate the percentage of the price which is made up of excise duty. Show your working.

Target: To calculate excise duty as a % of the price.

$52.3 / 100 \times 100 = 52.3\%$ (1 for method)
Accept 52% for 1 mark.

2

- (b) (i) Explain what is meant by price inelastic demand.

Target: To demonstrate understanding of price inelastic demand.

Demand changes at a lesser rate than price (2)
One mark for some understanding shown, or definition of perfectly inelastic. 2

- (ii) Explain why the demand for petrol is price inelastic.

Target: To apply the concept of price elasticity.

It is a necessity (1) for car users (1) or
it is complementary (1) to car use (1). 2

- (iii) Explain why the demand for new cars is price elastic.

Target: To apply the concept of price elasticity.

There are substitutes (1) which are used cars (1) or
Cars are expensive (1) and take a large proportion of income (1). 2

- (c) Explain what could cause the demand for and supply of new cars to change over time. With the help of diagrams, explain how these changes would affect the price and sales of new cars.

Target: To analyse the factors which cause price and sales to change in a market.

Demand factors include real disposable incomes, population (age structure), prices and availability of substitutes in particular used cars, prices of complements such as petrol and road tax, tastes and preferences.

Supply factors include various costs of production, changes in technology, indirect taxation and possible government grants/subsidies.

Level 3 (9-12 marks)

A range of demand and supply factors is explained with, reasoned argument, applied well to the new car market, and illustrated with accurate, fully labelled and clearly explained diagrams. 4 Demand and 4 Supply factors applied = 12 marks. 3 Demand and 3 Supply factors with excellent application also 12 marks. 2 demand and 2 Supply factors applied = 10 marks.

Level 2 (5-8 marks)

Distinction is made between demand and supply factors in the context and basically correct diagrams are used.

Maximum of 8 marks where price/sales changes are shown on diagrams but ignored in text.

Maximum of 8 marks where only demand side or supply side considered.

Maximum of 5 marks where price/sales changes are not shown on diagrams (or shown incorrectly) and ignored in text.

Maximum of 5 marks for correct analysis but no demand or supply factors identified.

Level 1 (1-4 marks)

Reasons stated for changes but with little distinction between demand and supply factors. Diagrams may be present but lacking in key respects.

12

- (d) **Car manufacturers have both fixed and variable costs of production. Explain the difference between a fixed cost and a variable cost.**

Target: To demonstrate knowledge of fixed and variable costs.

1 mark for each explained, e.g. fixed cost stays the same regardless of output, variable cost varies directly with output.

Maximum of 1 mark with no reference to output.

2

- (e) **Discuss the extent to which car manufacturers can gain from internal economies of scale.**

Target: To analyse and evaluate the importance of economies of scale.

Level 4 (7-8 marks)

Candidate makes a judgement based on reasoned argument which is applied well to car firms. Such firms could gain from technical economies using automation, robots, etc; purchasing economies for all sorts of components; marketing economies; financial economies; managerial economies; and risk-bearing economies with different models and markets. Reward candidates for discussion of possible diseconomies of scale.

Level 3 (5-6 marks)

Candidate analyses how economies of scale are relevant to car manufacturers.

Maximum of 6 marks for good analysis without application.

Level 2 (3-4 marks)

Candidate attempts to apply one or two economies of scale.

Level 1 (1-2 marks)

Candidate identifies one or two economies of scale, or identifies a fall in average costs.

8

Total marks 30

- 2 (a) **Target: To demonstrate understanding of opportunity cost, using an example**

Explain what is meant by the term opportunity cost.

- (i) 2 marks for clear explanation, e.g. the next best alternative which is given up.
1 mark if some understanding shown or example only is given. **2**

What might be the opportunity cost to a 16-year old of leaving school to take up a job?

- (ii) 1 mark for any reasonable example, e.g. staying at school to do A-levels. **1**

- (b) **Fig. 2 shows that the equilibrium wage for cleaners is £4.50 an hour. The cleaners are, however, paid a minimum wage of £5.50 an hour. Using Fig. 2, explain what happens in this market for cleaners now that a minimum wage is paid.**

Target: To analyse the effect of a minimum wage.

There are 3000 cleaners demanded (1) but 5500 cleaners supplied (1) (or there are more supplied but less demanded (1)) so there is an excess supply of cleaners (1) which is 2500 cleaners (1). Cleaners who want jobs will be unemployed (1). **4**

- (c) **A national minimum wage is good for the economy. Do you agree? Give reasons for your answer.**

Target: To evaluate the effects of a national minimum wage.

Arguments for could include: equity / fairness argument, helping the lower paid, reducing exploitation. Employers pay instead of the taxpayer in top-up benefits. Incentives to work are increased. People less likely to want to rely on benefits instead of work. Increases demand in the economy, helps employment and growth.

Arguments against could include: it does not help the poorest who do not work at all (examples). It increases costs to employers, which could mean higher prices. It makes UK goods less competitive in international markets. It helps people not from poor households, e.g. working children of the well-off. It can cause unemployment in some industries, e.g. less labour is bought at the higher wage.

Level 3 (5-8 marks)

Candidate makes a judgement based on reasoned arguments for and against a NMW. Maximum of 6 marks for only one side well argued.

Level 2 (3-4 marks)

Basic analysis of arguments for or against a NMW.

Level 1 (1-2 marks)

Argument for and/or against a NMW stated. Also allow mark for definition.

Maximum of 2 marks for presenting unemployment argument without going beyond part (b). **8**

Total marks 15

- 3 (a) **With reference to Fig. 3, explain one advantage and one disadvantage to the UK economy of European Union (EU) membership.**

Target: To apply an advantage and a disadvantage of EU membership for the UK economy.

Both an advantage and disadvantage must be explained for 4 marks, but allow up to 3 marks for one side only.

Advantages – Peugeot as a firm from elsewhere has produced in the UK providing jobs and incomes and multiplier effects along the supply chain.

It has been able to export a large part of output; helping the UK balance of payments (EU enables free movement of capital and free trade). Advantages to consumers of cheaper cars.

Disadvantage – Firms can locate anywhere in EU, this may mean moving out of the UK, leading to loss of output, jobs, incomes, etc. **4**

- (b) **Explain three possible reasons why Peugeot may prefer to locate car production in Slovakia rather than in the UK.**

Target: To understand factors affecting location of industry.

2 marks for each reason (briefly) explained. Reasons could include lower labour costs (wages and other), availability of skilled labour, lower land costs (rent and rates), more aid from government or EU grants, less regulation (?), lower company taxes, lower transport costs to continental markets, larger markets at hand etc.

Award 1 mark maximum only for answers which identify lower costs without specifying any / it is cheaper. **6**

- (c) **Explain how the closure of the Peugeot factory in Coventry would affect the UK balance of payments.**

Target: To analyse economic effects on the balance of payments.

Exports of cars will fall (1). Less UK made cars for UK market (1) so imports of cars will probably rise (1). Balance of payments worsens/deficit rises (1). **4**

- (d) **Would the closure of the Peugeot factory in Coventry lead to problems for the local community? Give reasons for your answer.**

Target: To evaluate economic effects on a local community of factory closure.

Level 2 (4-6 marks)

Candidate reasons why factory closure would lead to problems, which can include: High unemployment, knock-on (multiplier) effects of this on spending and therefore incomes of others, less sales for local businesses, some might close. Social effects, e.g. crime.

References to the supply chain (which could be local) should be rewarded.

House prices could fall, bad for current owners.

Award marks for any possible benefits, e.g. fewer external costs.

Level 1 (1-3 marks)

Up to 3 problems (or benefits) identified or one or more problems (benefits) explained. **6**

Note: Allow only 1 mark for effects on government revenue and spending unless local government is specified.

- (e) Identify and explain three economic measures that the government could use to improve the employment prospects of unemployed car factory workers. Discuss how well each measure is likely to work.

Target: To explain and evaluate measures to reduce unemployment.

For each measure:

Up to 2 marks for identifying it and explaining how it works

Up to 3 marks for discussing how well it works

(e.g. allow up to 5 marks for each measure so candidate can be awarded 5 + 3 for 8 marks)

E.g. Training schemes provide workers with new skills (1) so they can do other jobs (1). This makes them more mobile (1) and able to move into newer industries (1) although there may still not be opportunities in their local area (1).

E.g. Raising aggregate demand through fiscal policy (1) or through a reduction in interest rates (1) (marks for policy details). People do spend extra income on luxuries (1) so it could help car workers (1). However, they may buy more imports (1). The policy may be inflationary (1).

E.g. VAT reduction makes the cars cheaper (1) so consumers will buy more cars (1). This will increase employment of car workers (1), but maybe not those whose factory is now closed (1). Consumers may buy more imported cars (1). **12**

QWC mark scheme

2

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

Total mark 34

- 4 (a) Using information from Figs 4 and 5, calculate the UK government's budget balance. Show your working.

Target: To calculate the budget balance.

£552bn – £516bn = £36bn deficit.

1 mark for method.

Maximum of 2 marks for correct figure but minus sign or deficit is missing.

Maximum of 2 marks where bn or billion omitted.

3

- (b) Using information from Fig. 4, explain why the net pay of a worker in the UK is less than gross pay.

Target: To demonstrate understanding of gross and net pay.

Net pay is after deductions (1). Fig 4 shows income tax (1) and national insurance (1).

2

- (c) Explain, using one example from Fig.5, what is meant by a merit good.

Target: To demonstrate understanding of a merit good and identify an example.

1 mark for example from fig. 5, either education, health (care) housing, or transport.

3 marks for a clear explanation, 1 or 2 marks if some understanding shown.

E.g. a merit good can be bought individually (1) but also provides external benefits (1) which could be specified (1) so it benefits non-buyers as well (1). It can provide individual benefits greater than they are prepared to pay for (1). Social benefits exceed private benefits (1). It would be under consumed in the free market (1).

4

- (d) In recent years, the UK government has been spending more on health and education. Should the extra revenue for this come from direct taxes (such as income tax) or indirect taxes (such as VAT and excise duties)? Give reasons for your answer.

Target: To evaluate direct and indirect taxes as means of raising extra revenue.

Level 3 (7-10 marks)

Candidate demonstrates a high level of evaluation by considering pros and cons of both direct taxes and indirect taxes, and makes an overall judgement.

Advantages of direct taxes include being based on the ability to pay, can make the distribution of income more equal.

Disadvantages include adverse effects on incentives – to work, to save, to invest, etc. Advantages of indirect taxes include having choice of whether to buy and therefore pay, do not blunt incentives, reduce demand for demerit goods.

Disadvantages include regressive effects, which would be worse if the tax is extended e.g. to food.

Award marks for evaluation of effects of any specific taxes which candidate may identify, e.g. corporation tax, inheritance tax.

Level 2 (4-6 marks)

Candidate demonstrates analysis by considering both types of taxes, although may not analyse both advantages and disadvantages of each.

Level 1 (1-3 marks)

Candidate identifies the consequences of increasing direct or indirect taxes.

10

QWC mark scheme**2**

Candidates will be awarded marks for the quality of their written communication according to the following criteria.

Ideas are expressed clearly, fluently, legibly and in an appropriate way. There are few errors in spelling, punctuation and grammar.	2
Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

Total marks 21

1985/04 Paper 4 (Case Study Paper) Higher Tier

- 1 (a) Compare the time taken to travel to work on Merseyside and in London. [2]

Target: To describe difference in time taken to travel to work.

A higher percentage of people take less than 20 minutes to travel to work on Merseyside compared to London (Merseyside – 46% compared to London – 20%).

State difference (1 mark)

Use of figures to back up (1 mark)

Candidates must compare and not simply state figures. 1 mark for simply stating figures.

- (b) Discuss the costs and benefits of charging motorists to drive to congested areas. [6]

Target: To discuss costs and benefits of a congestion charge.

Costs – Will increase costs to firms who must transport their goods in these areas, cost of enforcement.

Benefits – Reduces the amount of drivers on the road, therefore reducing congestion, pollution and accidents (external costs). Money collected can be used by the government to improve roads in the area or for other projects.

Level 2 (4-6 marks)

Candidate must discuss at least one cost and one benefit. At the top, the candidate can suggest whether the costs outweigh the benefits or vice versa.

Level 1 (1-3 marks)

Candidate will only discuss costs or benefits, not both. Two costs or benefits must be explained to gain top end.

- 2 (a) Calculate the number of people employed in the public sector in the UK. Show your working. [2]

Target: To calculate number of people using percentages.

6.12 million people (2 marks)

Correct working shown but incorrect answer given (1 mark).

- (b) Should health care in the UK be provided by the public or private sector? Give reasons for your answer. [6]

Target: To discuss whether health should be provided by the public or private sector.

Public sector – money provided by the government, free at the point of use, main aim is to provide a good service, all of society can access this facility (many benefits to society of this).

Money coming from taxation could be spent on other services

(opportunity cost), run very inefficiently at present – long waiting lists.

Private sector – run efficiently (no waste) due to profit being main objective. Not everyone will be able to afford health care.

Level 2 (4-6 marks)

Candidates discuss advantages and/or disadvantages of provision by both private and public sector. At the top of this level candidates are able to discuss two or more advantages and/or disadvantages of both.

Level 1 (1-3 marks)

Candidate only looks at public sector provision or private sector provision, not both.

- 3 (a) Calculate the average cost per customer if Jane has 40 customers a week. Show your working. [2]

Target: To calculate average cost.

£30 (2 marks)

Correct working shown but answer incorrect (1 mark).

(b)

Number of customers	Fixed Costs (£)	Variable Costs (£)	Total Costs (£)	Total Revenue (£)
10	1000	50	1050	250
20	1000	100	1100	500
30	1000	150	1150	750
40	1000	200	1200	1000
50	1000	250	1250	1250
60	1000	300	1300	1500

- Using the table above and information from the case study, construct and label a break even chart for Jane's business *Cuts Both Ways*. [5]

Target: To be able to construct and label a break even chart.

Both axes correctly labelled (1 mark)

Total revenue line correctly drawn (1 mark)

Total revenue line correctly labelled (1 mark)

Total cost line drawn and labelled (1 mark)

Break even point correctly shown on diagram (1 mark).

Note. Own figure rule applies.

- (c) State the break even output of Jane's business. [1]

Target: To state the break even output.

50 customers.

- (d) The market for hairdressing on Merseyside is very competitive with price elastic demand. How should Jane change price in order to increase total revenue. Justify your answer. [4]

Target: To be able to use elasticity to explain changes in total revenue.

Prices should be decreased in order to increase total revenue.

Level 2 (3-4 marks)

Candidates explain why prices should be decreased using elasticity.

Level 1 (1-2 marks)

Candidates state that prices should be decreased in order to increase total revenue. At the top of this level the candidate is able to make some connection with elastic demand.

- 4 Using a demand and supply diagram, explain how increased interest rates would affect the price and sales of houses.

[5]

Target: To use supply and demand to explain the changes in the housing market.

Diagram - Axis labelled correctly (1 mark)
Original demand and supply curve labelled with original equilibrium shown (1 mark)
Shift of the demand curve to the left must be correctly labelled (1 mark).

Explanation - Higher interest rates will mean people have less money to spend (less disposable income) (1 mark)
Demand for houses will fall therefore the demand curve will shift to the left (1 mark)
Price and quantity will fall (1 mark).

- 5 (a) State three economic variables that the Monetary Policy Committee of the Bank of England might take into account when setting its interest rate. [3]

Target: To show knowledge of variables which the MPC take into account when setting its interest rate.

CPI (inflation) – how close to 2%, house price inflation, costs to businesses, wage pressure, economic growth, international growth, credit, any other reasonable response (1 mark for each correct answer up to maximum of 3 marks).

- (b) Using Figs. 5 and 6 and your knowledge of economics, do you agree that reducing the Bank of England interest rate benefits the UK economy? Justify your answer. [7]

Target: To discuss whether reducing interest rates benefits the UK economy.

More disposable income due to lower mortgage and loan repayments so people can buy more.

People have more disposable income due to lower mortgage and loan repayments so may spend more, may cause an increase in inflation (demand pull inflation).

Level 2 (4-7 marks)

Candidates discuss at least one benefit and one cost of reducing interest rates on the UK economy. At the top of this level candidates discuss two or more costs and benefits.

Level 1 (1-3 marks)

Candidates explain just the benefits or costs of reducing interest rates. At the bottom of this level candidates simply state benefits or costs.

- 6 (a) Explain what happened to prices between 2004 and 2006. [2]

Target: To describe changes in the price level and inflation.

Risen (1 mark)

Use of figures to back this up (1 mark).

- (b) Explain one cause of inflation. [3]

Target: To explain a cause of inflation.

Cost push (1 mark), increased costs of production incurred by firms. Firms wish to maintain profit margins so therefore increase prices (up to 2 marks). Vague idea (1 mark). Candidate must state cost push in order to get first mark.

OR

Demand pull (1 mark), when customers spend more, firms feel able to increase their prices, likely to occur when there is full employment (2 marks). Vague idea (1 mark). Candidate must state demand pull to get first mark.

Monetarist, imported inflation.

- (c) Discuss how increased inflation might affect the Jackson family. [6+2]

Target: To discuss how inflation affects the Jackson family.

Savings will lose their value, the Jackson family will see the value of their mortgage fall in real terms, spending / real income, standard of living falling. May affect Mrs Jackson's business with fewer customers.

Level 2 (3-6 marks)

Candidates discuss two costs and/or benefits to the family. At the top end candidates can say it depends on Mike Jackson's wage increases.

Level 1 (1-2 marks)

Candidates will explain the effect on savings or the effect on the mortgage or effect on spending / real income.

QWC mark scheme

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Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

- 7 (a) Explain how exchange rates are determined. [4]

Target: To explain how exchange rates are determined.

Exchange rates are determined by the forces of demand and supply (1 mark), use of diagram to explain (2 marks), if interest rates rise people will save in UK banks and so buy pounds, increased demand for pounds will cause the value of the pound to rise (strengthen) (2 marks). Floating or fixed exchange rate (1). Trade between countries (up to 2). Speculation (up to 2). Long term investment (up to 2).

- (b) Would it have been better for the Jackson family to have gone on holiday to France in May or September 2006? Give reasons for your answer. [4]

Target: To discuss which exchange rate would be better for the Jackson family when going on holiday.

In September the Jackson family would have been able to get more euros for their pounds compared with May. Candidates may calculate differences.

Level 2 (3-4 marks)

When making a judgment candidates explain why it would have been better to go in September. Use of figures from case study to support judgement.

Level 1 (1-2 marks)

Candidates explain differences in the exchange rate making a judgement as to which month is best.

- 8 Using the information from the case study and your knowledge of economics, discuss how the lives of the Jackson family might have been affected by changes in the UK economy between 2000 to 2006. [14+2]**

Target: To discuss how the changes in the economic situation have affected the Jackson family.

Favourable – Increase in house prices (wealth effect), fall in interest rates (although top candidates will notice that they are once again rising), strengthening pound, strong growth rate, low unemployment, low infant mortality rate, good life expectancy.

Unfavourable – Long commutes to work, possibility of a slow down in the housing market, increasing interest rates since 2003, rising inflation.

Level 4 (9-14 marks)

Candidates are able to make a judgement on whether the information provided shows if the Jackson family will benefit or not from the changes in the economy. Candidate uses fig.5 and / or fig.6 and uses information from the rest of the case study or own knowledge.

Level 3 (5-8 marks)

Candidates explain the information in the case study in fig.5 and fig.6. To achieve the top of this level candidates must explain two or more points.

Level 2 (3-4 marks)

Candidates use the figures from the case study.

Level 1 (1-2 marks)

Candidates describe the information showing knowledge of the economic concepts.

QWC mark scheme

2

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Straightforward ideas are expressed relatively clearly, legibly and appropriately. There may be some errors of spelling, punctuation and grammar, but these do not obscure the meaning of the answer.	1
Candidate fails to reach the threshold standard in all respects.	0

Grade Thresholds

General Certificate of Secondary Education
Economics (Specification Code 1985)
June 2008 Examination Series

Component Threshold Marks

Component	Max Mark	A	B	C	D	E	F	G
1	100	n/a	n/a	63	55	47	39	32
2	80	n/a	n/a	49	42	35	28	21
3	100	73	56	39	29	n/a	n/a	n/a
4	80	61	51	41	34	n/a	n/a	n/a

Specification Options

Foundation Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200	n/a	n/a	n/a	123	106	90	74	58
Percentage in Grade	-	n/a	n/a	n/a	23.1	24.4	23.4	14.9	7.8
Cumulative Percentage in Grade	-	n/a	n/a	n/a	23.1	47.5	70.9	85.8	93.6

The total entry for the examination was 293

Higher Tier

	Max Mark	A*	A	B	C	D	E	F	G
Overall Threshold Marks	200	168	146	118	90	72	63	n/a	n/a
Percentage in Grade	-	8.7	20.2	36.2	21.7	9	2.1	n/a	n/a
Cumulative Percentage in Grade	-	8.7	28.9	65.1	86.8	95.8	97.9	n/a	n/a

The total entry for the examination was 1041

Overall

	A*	A	B	C	D	E	F	G
Percentage in Grade	6.8	15.9	28.4	22	12.3	6.7	3.2	1.7
Cumulative Percentage in Grade	6.8	22.7	51.1	73.1	85.4	92.1	95.3	97.0

The total entry for the examination was 1334

Statistics are correct at the time of publication.

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